

AR42

First City
Financial Corporation Ltd.

ANNUAL
REPORT
1973



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First City *Financial Corporation Ltd.*

ANNUAL REPORT 1973

Financial Highlights

	1973	1972	Percentage Increase
INCOME FROM OPERATIONS	\$ 1,545,342	\$ 1,227,171	25.9
NET INCOME	1,312,664	1,110,088	18.2
NET EARNINGS PER COMMON SHARE	0.93	0.79	17.7
GROSS REVENUE.....	15,112,704	9,615,210	57.2
INTEREST COSTS.....	8,796,441	4,849,160	81.4
SALARIES AND EMPLOYEE BENEFITS.....	1,723,164	1,116,235	54.4
GROSS ASSETS.....	178,680,643	112,903,504	58.3
MORTGAGES AND SECURED LOANS.....	125,964,557	70,660,998	78.3

Directors

Senator David A. Croll, Q.C.
Toronto, Ontario,
Chairman of the Board

Samuel Belzberg, B.Comm.
Vancouver, British Columbia,
President

R. C. Baxter, B.Comm.
Vancouver, British Columbia

Hyman Belzberg
Calgary, Alberta

William Belzberg
Calgary, Alberta

Senator Allister Grosart, B.A.
Toronto, Ontario

W. Bernard Herman, Q.C.
Toronto, Ontario

Morley Koffman
Vancouver, British Columbia

Arthur B. Mauro, Q.C.
Winnipeg, Manitoba

Joseph H. Shoctor, Q.C.
Edmonton, Alberta

Officers

Senator David A. Croll, Q.C.
Chairman of the Board

Samuel Belzberg, B.Comm.,
President

*G. Howard Eaton,
Executive Vice President

William Belzberg,
Vice President

Michael Cytrynbaum,
Vice President

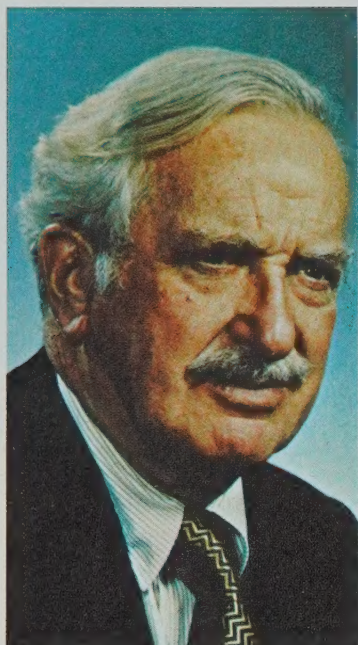
John D. McAlduff,
Vice President

*W. H. Kemp Edmonds,
Assistant Vice President

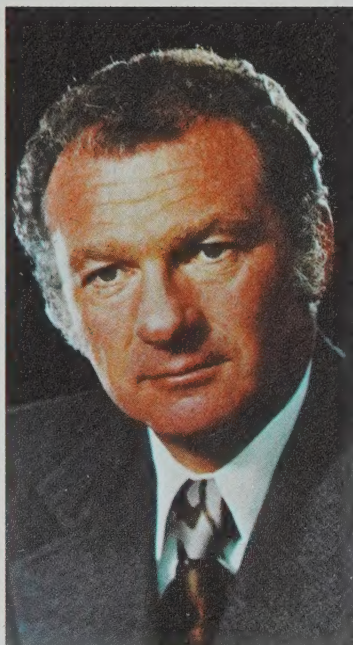
Glenn M. Ferguson,
Group Controller

Morley Koffman,
Secretary

*Officers appointed subsequent to December 31, 1973.



*Senator David A. Croll, Q.C.
Chairman of the Board.*



*Samuel Belzberg, B.Comm.
President.*

REPORT OF THE DIRECTORS

Your company enjoyed continued progress in 1973. A very high level of demand for residential, commercial and industrial mortgages resulted in a substantial increase of 58% in the total assets of First City Financial Corporation Ltd. Income from operations was up 26% from \$1.2 million to \$1.5 million in the year. This increase in our business led to a satisfactory 18% growth in your company's earnings per share.

Gross revenues for the year end were \$15.1 million, up 57% from \$9.6 million at December 31, 1972. However, gross interest costs rose by 81% to \$8.8 million from \$4.8 million a year earlier. Unusual increases in interest costs in the last half of 1973 were partially offset by management's efforts to increase the mortgage outstandings of the trust company. Net earnings for the year were

\$1,312,664 and, after provision for preferred dividends, common share earnings amounted to \$0.93 per share compared to \$0.79 per share for the previous year.

Because the major asset of First City Financial Corporation Ltd. is its trust company, City Savings and Trust, the high level of interest rates in the third and fourth quarters of 1973 had a noticeable effect on your company. Interest costs on five year guaranteed investment certificates rose from 7 ³/₄% in January, 1973 to 8 ³/₄% in December, 1973. An even greater increase existed for shorter term guaranteed investment certificates. Consequently, of the \$4.0 million increase in total costs of borrowings for the year,



Corporate Officers in conference include G. Howard Eaton, executive vice-president [standing left], W. Fraser Grant, president, Pacific Leasing [seated left], Glenn M. Ferguson, controller [seated right] and Michael Cytrynbaum, vice-president.

39% or \$1.2 million is attributable to higher interest rates while the remainder is due to greater outstandings in customer deposits.

In 1973 your company split its common stock two for one, thus the per share earnings for 1972 have been restated to reflect this.

At December 31, 1973, trust company deposit liabilities were \$143.9 million compared with \$89.5 million at the same date a year earlier. Outstanding bank lines of credit to all of the operating subsidiaries totalled \$10.8 million, up by \$8.5 million.

REVIEW OF OPERATIONS

City Savings and Trust Company

City Trust made good progress in 1973, increasing its assets from \$98.1 million at December 31, 1972 to \$157.2 million at December 31, 1973. The effect of a sharp increase in interest costs was partially offset by the trust company's strong mortgage lending activity which resulted in mortgage investments rising from \$66 million to \$114.9 million in the year.

City Trust's principal activity is mortgage lending. Because of this particular activity growth, our mortgage production and administrative staff was strengthened significantly and mortgage systems and programmes were updated. We are in an excellent position to handle even greater volumes of a diversified range of real estate and mortgage financing activities across Canada.

Several new branches were opened in 1973. These new openings are in keeping with management's intentions to eventually be located in each major city in Canada.

City Trust is the largest operating subsidiary of First City Financial Corporation and is our most important source of earnings. Due to its importance, we have increased our holdings

in City Trust to 79%, an increase which has been achieved by purchases of stock offered from time to time by the public over the Toronto and Vancouver Stock Exchanges.

Pacific Leasing Corporation Limited

Pacific Leasing's assets grew by 23% or \$2.4 million to \$13.0 million. This activity, owned 100% by First City Financial, continued to contribute significantly to earnings in 1973 with \$258,320 of net income or 18.7 cents per share. This represented 20% of our annual earnings per share in the year. 1973's profitability in the leasing company was affected by the sharp increase in Canadian interest rates.

This company's operations were extended into Edmonton, Alberta in 1973.

Staff

First City's progress has always been accomplished through its investment in people. Money is a people business so we attach special importance to our staff.

On behalf of First City's shareholders we compliment the company's personnel on an excellent performance in 1973. We thank each person for a job well done.

New Corporate Directions

Since incorporation, First City Financial Corporation Ltd. has pursued a corporate policy of acquiring excellent management personnel and investing in new financial activities, as well as expanding existing operations. Starting in the fourth quarter of 1973 and extending to the present, important changes and directions have occurred.

Range of financial services provided by First City group of companies is depicted on facing page. Services include deposit facilities, mortgage lending, real estate sales, property management and heavy equipment leasing.



Additional senior management was acquired and the Board appointed Mr. G. H. Eaton as executive vice president, chief operating officer of First City Financial, and Mr. W. F. Grant was appointed president, Pacific Leasing. Several other experienced people were recruited to round out the senior management team already with First City. Quite simply, management is our key resource.

Steps have been taken already in 1974 toward a partial reorganization of our operating subsidiaries. Much of the company's early expansion was accomplished by investing in new companies to handle complementary aspects of our financial business. We are now consolidating some of these, each bearing the First City name, while other efforts are being made to broaden our range of financial services. This is in keeping with our President's earlier statement of intention to build a 'one stop financial department store' for your every borrowing requirement. Not only will these developments broaden the range of our financial service, but they will act to diversify our earnings base.

C.S.T. Mortgage Corporation Ltd., which we plan to rename First City Investments Ltd., will be wholly owned by First City. This company will operate as a mortgage banking and mortgage brokering service with operations in both Canada and the United States. Mr. M. Cytrynbaum, president, will manage its operations and will be primarily extending short term mortgage loans specializing in construction and development.

The Board approved a name change in Pacific Leasing Corporation to First City Capital Ltd. subject to provincial regulatory approvals. First City Capital will not only offer a diversified range of leasing services, but will now extend commercial-industrial term loans and will also engage in factoring. Additionally, an office has been opened in Toronto under the supervision of Mr. T. Gorka, vice

president. First City Capital now offers a number of sophisticated financial services to manufacturing, commercial and industrial businesses in Canada and we are confident that this company will be very successful.

Other activities are being pursued and as they develop appropriate announcements will be made.

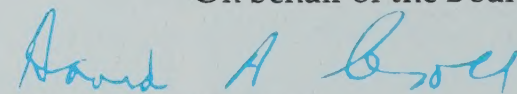
1974 Outlook

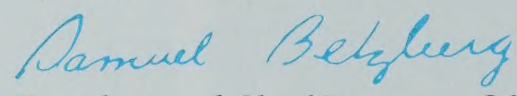
Your company's performance is expected to continue to progress in 1974, especially in the last half of the year as a number of our activities begin to mature.

1974 will be a year with many domestic and international uncertainties. We are particularly concerned with government's policies toward inflation and international currency problems. We are hopeful that our many economic problems will be managed without creating an economic downturn. If present economic growth continues, we expect business investment and real estate investment will be at high levels in 1974 and our own business will continue to grow.

The Company's Annual Meeting will be held on April 25, 1974, at the Hyatt Regency Hotel, Vancouver, at 10:00 a.m. and all shareholders are cordially invited to attend.

On behalf of the Board


Chairman of the Board


President and Chief Executive Officer

Vancouver, Canada
April 3, 1974

CONSOLIDATED STATEMENT OF INCOME

For the year ended December 31, 1973

[with 1972 figures for comparison]

	1973	1972
REVENUE:		
Investment income	\$11,717,955	\$ 7,084,355
Fees, commissions, and other income	2,359,394	1,523,507
Lease and secured finance contract income	1,035,355	1,007,348
Total revenue	<u>15,112,704</u>	<u>9,615,210</u>
EXPENSES:		
Interest on customer deposits	7,522,019	4,318,338
Interest on term debt	735,329	310,774
Other interest	539,093	220,048
Operating and administrative	1,715,443	1,465,986
Salaries and employee benefits	1,723,164	1,116,235
Depreciation	129,361	102,231
Amortization of deferred costs	15,480	11,021
Total expenses	<u>12,379,889</u>	<u>7,544,633</u>
INCOME FROM OPERATIONS BEFORE INCOME TAXES ..	<u>2,732,815</u>	<u>2,070,577</u>
PROVISION FOR INCOME TAXES:		
Current	528,264	585,229
Deferred	659,209	258,177
Total provision for income taxes	<u>1,187,473</u>	<u>843,406</u>
INCOME FROM OPERATIONS	1,545,342	1,227,171
NET GAIN ON EQUITY INVESTMENTS OF SUBSIDIARY — net of income taxes of \$8,640 (1972 — \$78,107)	<u>8,044</u>	<u>113,389</u>
INCOME BEFORE MINORITY INTEREST	1,553,386	1,340,560
MINORITY INTEREST	<u>240,722</u>	<u>230,472</u>
NET INCOME FOR THE YEAR	<u>\$ 1,312,664</u>	<u>\$ 1,110,088</u>
EARNINGS PER SHARE (Note 11)	<u>\$0.93</u>	<u>\$0.79</u>

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET

as at December 31, 1973
[with 1972 figures for comparison]

ASSETS

	1973	1972
CASH AND CERTIFICATES OF DEPOSIT (Note 2)	\$ 17,760,523	\$ 11,742,820
SECURITIES (Note 3)	19,700,134	17,409,728
MORTGAGES AND SECURED LOANS	125,964,557	70,660,998
REAL ESTATE (Note 4)	516,014	536,699
LEASE AND SECURED FINANCE CONTRACTS RECEIVABLE (Note 5)	10,086,409	9,259,580
ACCOUNTS RECEIVABLE	1,620,558	763,532
OFFICE PREMISES AND EQUIPMENT (Note 6)	803,544	602,088
OTHER ASSETS	569,363	316,927
EXCESS OF COST OF INVESTMENT IN SUBSIDIARIES OVER ACQUIRED EQUITY IN NET ASSETS (Note 7) ..	<u>1,659,541</u>	<u>1,611,132</u>
 TOTAL	 <u>\$178,680,643</u>	 <u>\$112,903,504</u>

APPROVED BY THE BOARD:

David A. Borer
Director

Samuel Belzberg
Director

LIABILITIES

	1973	1972
DEMAND AND SHORT-TERM DEPOSITS	5,432,177,404	\$ 17,693,277
GUARANTEED INVESTMENT CERTIFICATES	98,653,175	71,792,204
BANK INDEBTEDNESS (Note 8)	10,802,897	2,280,114
ACCOUNTS PAYABLE AND ACCRUED CHARGES	1,865,936	1,062,472
INCOME TAXES PAYABLE	71,176	144,270
LOAN FROM SHAREHOLDER	1,263,100	—
DEFERRED MORTGAGE FEES	689,065	550,894
TERM DEBT (Note 9)	7,143,050	8,361,692
DEFERRED INCOME TAXES	1,734,360	1,104,166
MINORITY INTEREST	1,694,603	1,577,284
	<u>169,146,770</u>	<u>104,566,373</u>
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 10):		
Preferred shares	1,000,000	1,000,000
Common shares	5,569,046	5,519,787
RETAINED EARNINGS	2,964,827	1,817,344
	<u>9,533,873</u>	<u>8,337,131</u>
TOTAL	<u>5178,680,643</u>	<u>\$112,903,504</u>

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF CASH

For the year ended December 31, 1973
[with 1972 figures for comparison]

	1973	1972
CASH PROVIDED:		
Net income for the year	\$ 1,312,664	\$ 1,110,088
Depreciation and amortization	144,641	113,252
Deferred income taxes	640,194	258,177
Minority interest	240,722	230,472
Total cash provided from operations	2,338,421	1,711,989
Demand and short-term deposits — net	27,524,137	3,945,231
Guaranteed investment certificates — net	26,860,971	26,601,689
Term debt	580,000	6,950,000
Issue of treasury shares by subsidiary	—	1,811,540
Bank indebtedness — net	5,522,783	—
Issue of common shares	49,259	99,302
Due to shareholder	1,265,100	—
Total cash provided	67,140,661	41,119,751
CASH APPLIED:		
Net investment in:		
Mortgages and secured loans	55,303,559	28,971,836
Lease and secured finance contracts receivable	826,829	3,624,360
Securities	2,290,406	1,413,507
Investment in subsidiaries	126,449	144,357
Purchases of premises, office equipment and furnishings	309,037	503,126
Reduction of bank indebtedness — net	—	374,119
Dividends	165,181	137,578
Dividends paid to minority interest	45,361	32,721
Repayment of term debt	1,798,642	571,518
Other — net	257,494	798,285
Total cash applied	61,122,956	36,571,407
INCREASE IN CASH FOR THE YEAR	6,017,703	4,548,344
CASH AND CERTIFICATES OF DEPOSIT AT BEGINNING OF THE YEAR	<u>11,742,820</u>	<u>7,194,476</u>
CASH AND CERTIFICATES OF DEPOSIT AT END OF THE YEAR	<u>\$17,760,523</u>	<u>\$11,742,820</u>

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the year ended December 31, 1973
[with 1972 figures for comparison]

	1973	1972
RETAINED EARNINGS AT BEGINNING OF THE YEAR	\$1,817,344	\$ 666,749
NET INCOME FOR THE YEAR.....	<u>1,372,664</u> <u>3,130,008</u>	<u>1,110,088</u> <u>1,776,837</u>
DIVIDENDS ON COMMON SHARES.....	138,515	109,603
DIVIDENDS ON PREFERRED SHARES	<u>26,666</u>	<u>27,975</u>
TOTAL DIVIDENDS	<u>165,181</u> <u>2,964,627</u>	<u>137,578</u> <u>1,639,259</u>
GAIN ON ISSUE OF TREASURY SHARES OF SUBSIDIARY	—	<u>178,085</u>
RETAINED EARNINGS AT END OF THE YEAR	<u>\$2,964,827</u>	<u>\$1,817,344</u>

The accompanying notes are an integral part of the consolidated financial statements.

AUDITORS' REPORT

To the Shareholders of
First City Financial Corporation Ltd.

We have examined the consolidated balance sheet of First City Financial Corporation Ltd. and subsidiaries as at December 31, 1973 and the consolidated statements of income, retained earnings and source and application of cash for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the source and application of

their cash for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the prevailing 1967.

As required by the Companies Act, British Columbia, we also report that, in our opinion, due provision has been made in these consolidated financial statements for liability incurred by subsidiaries.

MILLOTTE, HASKINS & REILS
Chartered Accountants

Vancouver, British Columbia
March 2, 1974

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1973

1. SUMMARY OF ACCOUNTING POLICIES:

Basis of Consolidation:

The consolidated financial statements include the accounts of the company and all of its subsidiaries. The subsidiaries are as follows:

City Savings & Trust Company	79%
C.S.T. Mortgage Corporation Ltd.	87%
Citrust Developments Limited	59%
C.S.T. Realty Ltd. (inactive)	79%
Pacific Leasing Corporation Limited	100%
PLC Investments Limited	100%
Pacific Leasing (Ontario) Limited	100%
First City Equities Limited	51%
F.C. Financial Associates Ltd.	75%
First City Insurance Agencies Ltd.	100%
Second City Financial Corporation Ltd.	75%
Third City Financial Corporation Ltd. (inactive)	100%
City Investments and Properties Limited (inactive)	100%

The percentages represent the approximate ownership either direct or indirect by First City Financial Corporation Ltd. in each of its subsidiaries.

The results of operations of the subsidiaries are included in the consolidated financial statements from the respective dates of acquisition or incorporation, and the appropriate provision for minority interest has been made.

All material intercompany balances and transactions have been eliminated.

Acquisitions have been accounted for by the purchase method. The excess of the cost of shares in the subsidiaries over the equity in their net assets at acquisition dates is carried at cost.

These consolidated financial statements include City Savings & Trust Company which is incorporated in the Province of Alberta. The accounts of City Savings & Trust Company comprise the major proportion of the consolidated assets, liabilities, and net income. The accounting principles and presentation in the consolidated financial statements reflect those that are common to trust companies in Canada.

Securities Valuation:

The investments in securities are recorded at cost or amortized cost plus accrued income.

Mortgages and Secured Loans:

Mortgages and secured loans are recorded at cost plus accrued interest less payments thereon.

Lease Contracts:

The accounting principles employed in respect to the leasing operations are in accordance with the leasing industry. Income is recognized on the sum of the digits method. Options to purchase equipment under lease are granted to the lessee at prices which the company estimates

to be the fair market value of the equipment. The amount by which the total payments receivable under the lease contract including residual value exceeds the cost of the related equipment is recorded as unearned income.

Secured Finance Contracts:

Gross receipts to be received over the periods of the agreements are recorded as assets and unearned income is determined and recorded in the same manner as for leases. However, there is no option price associated with these receivables.

Office Premises and Equipment:

It is the company's practice to provide for depreciation and amortization of office premises and equipment under the straight line method at rates of 10% and 15% and to provide for amortization of leasehold improvements on a straight line basis over ten years.

Other Assets:

Deferred costs included in other assets consist of incorporation and organization expenses, issue expenses on debentures, and costs incurred in opening branch offices. Issue expenses are being amortized over the period the debentures are outstanding. The costs incurred to open branches are being written off over five years.

Deferred Mortgage Fees:

Mortgage fees are recognized as revenue over the term of the respective mortgage. If the term of the mortgage is one year or less, fees are recognized as income in equal increments quarterly. If the term of the mortgage is in excess of one year, fees are recognized as income on the sum of the digits method over a maximum of five years.

Deferred Income Taxes:

The companies follow the tax allocation method of recording income taxes. This method relates the total provision for income taxes to the accounting income rather than the taxable income for the period.

The major elements of deferred income taxes as recorded on the consolidated balance sheet have resulted from the following:

- A. The difference between the method of accounting for leases for accounting purposes and for tax purposes.
- B. Allowance for doubtful accounts deducted for tax purposes in excess of those recorded for accounting purposes.
- C. Losses for tax purposes, primarily resulting from A. above, which are available for application to the taxable incomes of future years. The potential future tax reduction has been recorded as a reduction of deferred income taxes.

The total income tax provision is less than the amount determined by applying the current rate of tax to the income before tax, as dividends from Canadian taxable corporations and one-half of capital gains on sale of security investments are included in accounting income but not in taxable income in any period.

2. CASH AND CERTIFICATES OF DEPOSIT:

	1973	1972
Cash	\$ 132,466	\$ 2,212,106
Deposit receipts of chartered banks	6,730,404	1,075,804
Short-term notes and collateral loans	10,897,653	8,454,910
TOTAL	<u>\$17,760,523</u>	<u>\$11,742,820</u>

3. SECURITIES:

The cost or amortized cost is:

	1973	1972
Government bonds	\$ 7,008,638	\$ 7,044,647
Corporate bonds	5,906,196	5,683,845
Stocks	6,785,300	4,681,236
TOTAL	<u>\$19,700,134</u>	<u>\$17,409,728</u>

The market value is:

	1973	1972
Government bonds	\$ 5,533,527	\$ 6,020,452
Corporate bonds	5,347,657	5,322,313
Stocks	5,952,380	4,533,456
TOTAL	<u>\$16,833,564</u>	<u>\$15,876,221</u>

4. REAL ESTATE:

Real estate is recorded at cost less accumulated depreciation of \$85,492 (1972 — \$64,807).

5. LEASE AND SECURED FINANCE CONTRACTS RECEIVABLE:

	1973	1972
Lease contracts	\$10,830,445	\$10,432,007
Assets purchased for lease commitments	103,159	164,909
Conditional sales agreements	1,107,665	417,478
Chattel mortgages	693,599	710,976
	<u>12,734,868</u>	<u>11,725,370</u>
Less:		
Unearned income	2,373,299	2,107,895
Allowance for possible losses	275,160	357,895
TOTAL	<u>\$10,086,409</u>	<u>\$ 9,259,580</u>

6. OFFICE PREMISES AND EQUIPMENT:

Office premises and equipment are recorded at cost less accumulated depreciation and amortization of \$393,893 (1972 — \$295,911).

7. EXCESS OF COST OF INVESTMENT IN SUBSIDIARIES OVER ACQUIRED EQUITY IN NET ASSETS:

Balance as at December 31, 1972	\$1,611,132
Excess of cost on acquisition of further shares of City Savings & Trust Company over equity in net assets acquired	48,659
Other	(250)
Balance as at December 31, 1973	<u>\$1,659,541</u>

Management believes that this excess has continuing value, and accordingly no amount of the excess has been amortized.

8. BANK INDEBTEDNESS:

Bank indebtedness of the companies is secured as follows:

Specific mortgages aggregating \$8,071,000 secure demand loans in the amount of \$5,125,000.

Pacific Leasing Corporation Limited has issued secured debentures (see Note 9) in the amount of \$5,000,000 to secure a demand loan in the amount of \$5,000,000.

9. TERM DEBT:

The details of the debt of the companies, initially negotiated for a term in excess of one year, are as follows:

	1973	1972
First City Financial Corporation Ltd.: 9% Sinking Fund Debentures, Series A, unsecured, due July 15, 1992	<u>\$3,000,000</u>	<u>\$ 3,000,000</u>
Pacific Leasing Corporation Limited: Bank Loan — of subsidiary company, PLC Investments Limited — prime rate plus 1¼% due December 31, 1979	<u>3,057,118</u>	<u>3,039,516</u>
Secured Debentures: Series: A — 7% Maturing November 30, 1981	<u>352,476</u>	<u>—</u>
B — 7¼% Maturing May 15, 1980	<u>586,500</u>	<u>—</u>
Total secured debentures	<u>938,976</u>	<u>—</u>
Collateral Trust Notes: Series: A — 6% Maturing March 18, 1973	<u>—</u>	<u>500,000</u>
A — 7% Maturing November 30, 1981	<u>—</u>	<u>376,604</u>
B — 6% Maturing May 1, 1973	<u>—</u>	<u>650,000</u>
C — 6¼% Maturing May 15, 1980	<u>—</u>	<u>621,000</u>
Total collateral trust notes	<u>—</u>	<u>2,147,604</u>
Unsecured Sinking Fund Debentures: Series: A — 7% Maturing	<u>64,000</u>	<u>74,000</u>
November 15, 1975 B — 7% Maturing	<u>79,500</u>	<u>90,500</u>
October 1, 1977 C — 6¾% Convertible maturing August 15, 1981	<u>23,000</u>	<u>30,000</u>
Total unsecured sinking fund debentures	<u>166,500</u>	<u>194,500</u>
	<u>7,162,594</u>	<u>8,381,620</u>
Less sinking fund deposits applicable to debentures	<u>19,544</u>	<u>19,928</u>
Net term debt	<u>\$7,143,050</u>	<u>\$8,361,692</u>

First City Financial Corporation Ltd.:

The 9% Sinking Fund Debentures, Series A, require sinking fund deposits of \$150,000 annually in each of the years 1976 to 1991 inclusive and the balance of \$600,000 is due on July 15, 1992. The debentures are redeemable at the company's option at any time at the price of the original principal amount plus premium which varies by year during the period the debentures are outstanding.

Share purchase warrants issued in conjunction with the debentures entitle the holders thereof to purchase 100 common shares of the company for each \$1,000 principal amount of the debentures at a price of \$6.50 per share at any time up to July 15, 1977 and at a price of \$8.00 per share thereafter up to the date of expiration of the warrants, July 15, 1982. The number of shares and prices per share reflect the two for one stock split (see Note 10).

In the Trust Deed under which the debentures were issued, the company has agreed to numerous covenants which restrict certain types of further borrowings by it or a designated subsidiary (as defined) and restrict declaration or payment of dividends and other various matters unless the conditions stated within the Trust Deed are met.

Pacific Leasing Corporation Limited:

Bank Loan:

A subsidiary, PLC Investments Limited, has issued a demand debenture for the principal sum of \$4,200,000 to secure the term loan. One of the covenants included in the debenture and in the term loan agreement stipulates that the subsidiary will not declare dividends without the prior consent of the bank.

As security under the loan agreement and the demand debenture, Pacific Leasing Corporation Limited has:

A. Mortgaged and charged, by way of a fixed and specific mortgage and charge, all equipment leased under certain specific lease contracts.

B. Granted and assigned to the lender the proceeds from the related lease contracts.

The loan is to be repaid monthly from the proceeds received under the specific lease contracts pledged as security for the loan, to be applied firstly in payment of interest, and secondly in payment of principal. The balance of principal, if any, is due December 31, 1979.

Secured Debentures:

Pacific Leasing Corporation Limited is authorized to issue various series of secured debentures in unlimited amounts but only upon and subject to the conditions and limitations as set forth in the Deed of Trust and Mortgage dated April 25, 1973. The following secured debentures have been issued during the year to replace equal principal amounts of collateral trust notes.

Series A — with annual interest and principal repayment requirements of \$51,127 and a final payment of \$79,950 on November 30, 1981.

Series B — with annual sinking fund requirements of \$35,000, and the balance of \$376,500 is due on May 15, 1980.

In addition, \$5,000,000 Series A secured debentures have been issued to secure the demand bank loan (see Note 8) of the company and a further \$100,000 to secure another line of credit, on which no funds were drawn at December 31, 1973.

The secured debentures are secured through the Deed of Trust and Mortgage by a first fixed charge on certain of the company's lease and secured finance contracts receivable and securities (all as defined in the Deed of Trust and Mortgage), which security must aggregate not less than 125% of the secured debentures outstanding. Under the Deed of Trust and Mortgage, the company has agreed to certain covenants which provide restrictions on further borrowings by the company and declaration or payment of dividends unless the conditions stated within the Deed of Trust and Mortgage are met.

Unsecured Sinking Fund Debentures:

The company is authorized to issue various series of unsecured debentures in unlimited amounts but only upon and subject to the conditions and limitations as set forth in the Trust Indenture dated November 15, 1960, and as subsequently amended. All debentures rank *pari passu* and are secured equally and rateably regardless of date or terms of issue. All debentures are redeemable at the company's option at any time at the price of the original principal amount plus premium which varies by year during the period the debentures are outstanding.

Under the terms of the Trust Indenture, the company has agreed in addition to other covenants that not more than one-half of its earnings since November 1, 1960 shall be used to pay dividends or to redeem shares.

A. The 7% Sinking Fund Debentures, Series A and B, each have annual sinking fund requirements of \$10,000 to maturity, and the balances of \$44,000 are payable on November 15, 1975, and October 1, 1977 respectively.

B. The 6¾% Convertible Sinking Fund Debentures Series C, has annual sinking fund requirements of \$25,000 to maturity, and the balance of \$196,000 is payable on August 15, 1981. The debentures are convertible at the rate of 45 Class A common shares of the company for each \$1,000 debenture up to August 14, 1976. Of the \$371,000 of Series C Debentures, \$348,000 are held by the company's parent, First City Financial Corporation Ltd.

10. SHARE CAPITAL:

Preferred Shares:

During the year the company, by special resolution, increased the number of authorized redeemable exchangeable preferred shares without nominal or par value from 800,000 shares to 1,600,000 shares. The 400,000 previously issued and fully paid preferred shares were subdivided with the result that 800,000 preferred shares were issued and fully paid at December 31, 1973. The preferred shares rank equally as to dividends with the common shares except that the rate of dividends on each preferred share is one-third of that on each of the common shares.

The preferred shares are redeemable at any time at the company's option for the amount paid thereon. The preferred shareholders may at their option at any time up to September 27, 1986 exchange the preferred for common on a three for one basis.

Common Shares:

During the year the company, by special resolution, increased the number of authorized common shares without nominal or par value from 4,200,000 shares to

8,400,000 shares. The 692,575 shares which were issued and fully paid at the date of the special resolution were subdivided with the result that 1,385,150 common shares were issued and fully paid immediately following execution of the special resolution. During the year 1,164 shares were issued for cash consideration of \$7.00 each and 11,746 shares for cash consideration of \$3.50 each under stock option plans that expire December 31, 1974.

	Shares	\$
Balance December 31, 1972 ..	691,411	\$5,519,787
Stock options exercised prior to subdivision of shares	1,164	8,148
	<u>692,575</u>	
Issued and fully paid immediately following subdivision	1,385,150	—
Stock options exercised from April 27, 1973	11,746	41,111
Balance December 31, 1973 ..	<u>1,396,896</u>	<u>\$5,569,046</u>

Common shares are reserved for issue as follows:

A. Stock option plans are available to employees as determined by the senior executives of the company at a price of \$3.50 each	1,016
B. A share purchase warrant for a senior executive allows the purchase of shares for \$6.50 up to July 15, 1977 and \$8.00 thereafter and up to July 15, 1982 at which time the warrant expires. The number of shares that may be purchased in any year is limited. The warrant is exercisable after July 15, 1976 or such earlier date as the company may designate	40,000
C. Purchase warrants issued in conjunction with the 9% Sinking Fund Debentures, Series A, (see Note 9)	300,000
D. Conversion rights on preferred shares of the company	266,666
Total shares reserved	<u>607,682</u>

11. EARNINGS PER SHARE:

Earnings per share have been calculated on the weighted average number of shares outstanding during each period and on the basis that the subdivision of shares as outlined in Note 10 occurred on January 1, 1972.

Fully diluted earnings per share have been calculated on the assumptions that stock options outstanding at the end of each year were exercised at the beginning of each year and that conversion rights on preferred shares were exercised on the effective date of issue July 16, 1971, and that the share purchase warrants attached to the 9% Sinking Fund Debentures, Series A, and the share purchase warrant for a senior executive were exercised on the approximate date of issue of the warrants July 15, 1972.

Earnings in the amount of \$99,000 net of income taxes were imputed on the assumed funds derived from stock options and share purchase warrants at an assumed rate of 9% before tax.

	1973	1972
Fully diluted earnings per share	<u>\$0.71</u>	<u>\$0.64</u>

Income from operations per share, after deducting minority interest relating thereto, but not including net gain on equity investments of subsidiary, calculated on the weighted average number of shares outstanding during each period was \$0.92 for 1973 (1972 — \$0.73).

12. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS:

The total remuneration received during the year ended December 31, 1973 by directors of the company, as a director, officer or employee of the companies, was \$ nil; by senior officers of the company was \$57,109 (1972 — \$26,730).

13. COMMITMENT AND SUBSEQUENT EVENTS:

Subsequent to the company's December 31, 1973 fiscal year end, the company has offered to purchase 350,000 shares of capital stock of a U.S. corporation for a cash consideration of U.S. \$12.25 net per share. The approximate aggregate dollar value including solicitation fees of the offer is U.S. \$4,375,000. Under the terms of the offer the company is committed to purchase 350,000 shares only if that number is duly tendered. If less than 350,000 shares are duly tendered, the company may elect not to purchase any shares, or to purchase all shares which have been duly tendered. Should the offer be successful the company's investment would represent approximately 18% of the outstanding share capital. The company has arranged adequate financing in respect to this commitment. The offer expires March 11, 1974.

Subsequent to December 31, 1973, Pacific Leasing Corporation Ltd. has received income tax reassessments which, in total, require the payment of approximately \$148,000 of taxes and interest. Approximately \$73,000 of this amount represents an acceleration of the timing of the payment of taxes, and would result in an increase in income taxes payable with a corresponding decrease in deferred income taxes. No provision has been made in the accounts for the balance of \$75,000. The company proposes to appeal these reassessments and accordingly the ultimate liability cannot be ascertained at this time.

The company's head office, the leasing company's office, and the trust company's head office and branch premises are held under long-term leases to a maximum term of ten years. The aggregate amount of rentals in respect of long-term leases incurred as an expense in 1973 was approximately \$277,000. The minimum annual rentals expected to be incurred for each of the next five years under all leases currently in force approximate \$488,000.

14. COMPARATIVE FIGURES:

Certain of the 1972 figures provided for the purpose of comparison have been reclassified to conform to the classifications used in the current year.

First City Financial Corporation Ltd.

HEAD OFFICE

Suite 1200, 1055 West Georgia Street,
Vancouver, British Columbia

689-9144

Subsidiaries:

CITY SAVINGS & TRUST COMPANY

Edmonton, McLeod Building	429-4811
King Edward Hotel	429-5966
Londonderry Mall	476-7661
Toronto, 95 Yonge Street	864-1090
1207 St. Clair Avenue West	531-9978
Winnipeg, 369 Portage Avenue	947-1543
Regina, 1861 Hamilton Street	522-2691
Saskatoon, 140-2nd Avenue South	242-4236
Calgary, 336-7th Avenue, S.W.	266-8851
Vancouver, 777 Hornby Street	688-9421
Victoria, 1306 Douglas Street	383-4141

*FIRST CITY CAPITAL LTD.

Suite 1200, 1055 West Georgia Street, Vancouver, British Columbia	689-9144
McLeod Building, Edmonton Alberta	429-4811

*FIRST CITY INVESTMENTS LTD..

Suite 1200, 1055 West Georgia Street, Vancouver, British Columbia	689-9144
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*FIRST CITY INSURANCE AGENCIES LTD.

Suite 1208, 1055 West Georgia Street, Vancouver, British Columbia	689-9144
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**Renamed subject to regulatory approvals.*

Bankers

Bank of British Columbia
Bank of Montreal
Canadian Imperial Bank of Commerce
Royal Bank of Canada
The Toronto-Dominion Bank
The Mercantile Bank of Canada

Stock Exchange Listings

Toronto Stock Exchange
Vancouver Stock Exchange

Auditors

Deloitte, Haskins & Sells
Chartered Accountants



First City Financial Corporation Ltd. and its subsidiaries offer a wide range of financial services: Savings Accounts — Chequing Accounts — Guaranteed Investment Certificates — Personalized Cheques — Estate Management — Personal Trust Service — Corporate Trust Services — Personal Loans — Registered Retirement Savings Plans — Deferred Profit Sharing Plans — Income Averaging Certificates — Real Estate Brokerage — Property Management — Purchase and Sale of Mortgage Portfolios — First Mortgage Loans — Second Mortgage Loans — Interim & Construction Financing — Land Development Loans — N.H.A. Loans — Real Estate Development — Lease-Back Financing — Joint Venture Participations — Stand-By Commitments — Term Lending — Equipment Leasing — Factoring.

**FIRST CITY
FINANCIAL
CORPORATION
LTD.**

**SIX MONTH
REPORT
TO JUNE 30
1973**

PRESIDENT'S REPORT

Your company continued to make record gains in a highly competitive market in the six months ended June 30. Net income at \$575,035 was up by \$136,599 or 31 per cent from the corresponding period last year.

Earnings per share, after giving effect to the two for one stock split in April of this year, was 41.5 cents compared with 31.7 cents a year earlier.

Our two main subsidiaries, City Savings & Trust Company and Pacific Leasing Corporation Ltd., both achieved new levels in revenues and earnings producing total revenues for First City of \$6,367,468, an increase of more than \$2.2 million. Income from operations before providing for taxes and minority interest, was up by 53 per cent at \$1,268,010.

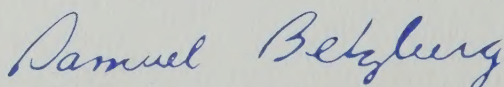
City Trust reported new records in revenues, earnings, investments and in customer deposits which, for the first time, passed the \$100 million mark. It is interesting to note that deposits have more than doubled in less than three years, a significant factor in the rapid growth achieved by City Trust.

Gross income from Pacific Leasing has been growing steadily since we acquired this company and, in the latest six months, moved ahead by almost 25 per cent over the corresponding period last year, to \$509,927 a gain of \$102,226. Gross receivables of Pacific were up by \$2 million to \$11.75 million.

Both subsidiaries have expanded their operations this year. City Trust opened a second Toronto branch in June and is planning a third outlet in that city to be opened in the first quarter of 1974. The new Saskatoon branch will be in operation by mid-September of this year. Pacific Leasing has opened a branch in Edmonton and is attracting a high volume of business in Alberta.

Continuing our program of diversification, a new subsidiary First City Equities Limited has been formed with operations in Toronto to serve as a mortgage broker in eastern Canada. This company was formed late in the second quarter and has already arranged more than \$3 million in mortgage loans.

Our other subsidiaries, while still in the developing stages, are making a useful contribution to First City's business volume and we are looking to continued gains for your company in the second half of 1973.



Samuel Belzberg,
President.

CONSOLIDATED STATEMENT OF INCOME

For the six months ended June 30, 1973 (with 1972 figures for comparison)
(Unaudited)

REVENUE

	1973	1972
Investment income	\$ 4,960,413	\$ 2,983,772
Fees, commissions and other income	897,128	737,435
Lease and secured contract income	509,927	407,701
Total Revenue	6,367,468	4,128,908

EXPENSES

Interest on guaranteed account	3,048,324	1,949,378
Interest on term debt	371,999	62,821
Other interest	78,073	126,048
Operating and administration	851,430	576,072
Salaries and employee benefits	694,634	558,281
Depreciation	47,258	24,763
Amortization of deferred expenses	7,740	3,820
Total Expenses	5,099,458	3,301,183

INCOME FROM OPERATIONS BEFORE INCOME TAXES

Provision for (Recovery of) Income Taxes	1,268,010	827,725
Current	376,913	504,773
Deferred	203,382	(159,069)
Total provision for Income Taxes	580,295	345,704

INCOME FROM OPERATIONS

Net gain on equity investments of subsidiary —	687,715	482,021
net of income taxes of \$1,051 (1972—\$21,482)	7,132	47,568

INCOME BEFORE MINORITY INTEREST

Minority interest	694,847	529,589
	119,812	91,153

NET INCOME FOR PERIOD

\$ 575,035	\$ 438,436
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Earnings per share

41.5c	*31.7c
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*After giving effect to a 2 for 1 stock split on April 27, 1973.

Consolidated Statement of Source and Application of Cash

For the six months ended June 30, 1973
(with 1972 figures for comparison) (Unaudited)

SOURCE OF CASH	1973	1972
Net income for the period	\$ 575,035	\$ 438,436
Depreciation and amortization	54,998	28,583
Deferred income taxes	203,382	(159,069)
Minority interest	119,812	91,153
Total cash provided from operations	953,227	399,103
Guaranteed account—net	15,861,685	14,003,341
Bank indebtedness—net	3,226,394	2,204,359
Advance from affiliated company	1,000,000	—
Issue of treasury shares by subsidiary	—	1,825,148
Issue of common shares	8,148	45,731
Other—net	—	11,466
Total cash provided	21,049,454	18,489,148

APPLICATION OF CASH

Net investment in:		
Mortgages and secured loans	18,170,708	2,951,114
Securities	1,981,324	937,620
Lease and secured finance contracts receivable	230,146	2,008,182
Investment in subsidiary	105,068	—
Investment in real estate held for sale	539,808	—
Increase in accounts receivable	1,325,995	807,968
Reduction of term debt—net	814,034	103,582
Additions to real estate—net	—	155,223
Purchase of fixed assets—net	34,433	362,359
Dividends	82,591	71,969
Other—net	43,802	—
Total cash applied	\$23,327,909	\$ 7,398,017
(Decrease) increase in funds for the period	(2,278,455)	11,091,131
Cash and certificates of deposit beginning of the period	11,742,820	7,040,243
Cash and certificates of deposit end of the period	\$ 9,464,365	\$18,131,374

Directors

AR42

SENATOR DAVID A. CROLL, Q.C.

Toronto, Ontario, *Chairman of the Board*

SAMUEL BELZBERG, B.Comm.

Vancouver, British Columbia, *President*

SENATOR ALLISTER GROSART, B.A.

Toronto, Ontario

WILLIAM BELZBERG

Calgary, Alberta

JOSEPH H. SHOCTOR, Q.C.

Edmonton, Alberta

W. BERNARD HERMAN, Q.C.

Toronto, Ontario

HYMAN BELZBERG

Calgary, Alberta

MORLEY KOFFMAN

Vancouver, British Columbia

R. C. BAXTER, B.Comm., F.R.I.

Vancouver, British Columbia

ARTHUR V. MAURO, Q.C.

Winnipeg, Manitoba

Executive Offices:

No. 1040 - 1055 West Hastings Street
Vancouver 1, B.C.

**FIRST
CITY**